Name of the Institution	:	Ministry of Finance, Economic Stabilization and National Policies
Parliamentary Series	:	77

Submission of observations of Hon. Minister and steps taken with regard to the reports tabled by the Committee on Public Accounts in terms of Standing Order No. 119(4)

Parliamentary Series 77

Committee on Public Accounts

Contents

Name of the Department : Inland Revenue

Parliamentary Series Number : 77

Date of Examination :- 28th November 2022

Submission of observations and steps taken with regard to the reports presented to the Parliament by the Committee on Public Accounts in terms of the Standing Order No.119 (4)

	The shortcomings in the report which were identified by the Committee	Steps taken by the institute to rectify the shortcomings/ present status
01	**Tax, penalty and interest arrears in the Legacy Computer System** Regarding the Legacy Computer System, 72% of the total outstanding tax, penalty and interest value of Rs.261, 925,187,280/= i.e. Rs. 189,748,978,400/= has been recognized as suspended tax, penalty and interest and chargeable income of Rs. 72,176,208,880/= of arrears of taxes and fines have not been recovered so far.	The default tax pertaining to the Legacy Computer System as at 30.06.2022 was Rs. 261,925,187,281.00 has been decreased up to Rs. 209,936,351,221.00 by 31.12.2022 which is default tax of Rs. 51,988,836,060.00 deducted by 31.12.2023. | | Total default tax and penalty | Held over tax and penalty | Collectable tax and penalty | | 30.06. 2022 | 261,925,187,281 | 189,748,978,401 | 72,176,208,880 | | 31.12. 2023 | 209,936,351,221 | 159,645,625,334 | 50,290,725,887 | | Settlements | 51,988,836,060 | 30,103,353,067 | 21,885,482,993 |
	It was revealed at the Committee that, although the previous Committee on Public Accounts directed to submit a detailed information about the arrears of income tax that have been temporarily suspended related to the Legacy computer system, and they are in which stages of the Tax Appeal Process, and in what amounts, still no information has been provided to the Committee.	As per C 49 report related to the Legacy computer system as at 31.12.2023; • From the held over default tax and penalty of Rs. 1,909,015,748.58 is at the tax appeal stage. • It has been identified that, from the held over default tax and penalty Rs. 11,690,671,595.79 is at the stage of CGIR Hearing in the tax appeal process. • Default tax and penalty which are at the appeal stage at Tax Appeals Commission are Rs. 52,965,012,547.01.
	Even though it has been 7 years since the Legacy computer system was closed, it was revealed before the committee that the chargeable income related to that system is Rs. 72,176,208,880/= in arrears of taxes and penalties have not been recovered so far.	Further, issuing of amended assessments relevant to recovery of default tax pertaining to the Legacy computer system, setting off of refunds, and transfer of payments are carried out by the Legacy Computer System. Accordingly, the statement that Legacy Computer System has been closed is incorrect and the system should be active to collect the said default tax.

02	**<u>Arrears tax, penalty and interest in the RAMIS Computer System</u>** In relation to the RAMIS Computer System, 75% of the total outstanding tax, penalty and interest value of Rs. 512,032,669,338/=, i.e. Rs. 382, 808,023,020/= has been recognized as temporarily suspended tax, penalty, and interest and Rs. 129,224,646,318/= has been identified as recoverable arrears of taxes and fines.	The Inland Revenue Department takes measures to collect default tax after issuing default tax notices and provides payment plans to the taxpayers who have difficulties in paying the total amount of default tax at once. If such arrangements have not been made bank accounts of taxpayers are seized and collected from other third parties. In the case where recovery is not possible through the above mentioned methods, cases are filed at the court. Further, default tax is cleared by settling the objections submitted by the taxpayer, setting off of refunds or transfer of payments applicable for other tax period or tax type in the file. The default tax balance was also reduced by writing off the default tax as per the Finance Act No. 18 of 2021. The default tax related to the RAMIS of the department from 01.01.2023 to 31.12.2023 has been reduced as follows. As at 31/12/2023; Collections of default tax - 78,384,988,307.57 Writing off of default tax - 10,653,060,245.96 Total - 89,038,048,553.40
	It was revealed that 90 staff of Inland Revenue Department has been trained to maintain the RAMIS System and from the year 2014, a monthly payment of Rs. 3.091 million paid for those officers and so far, nearly Rs. 244.881 million has been paid for it.	RAMIS system is an information management system consists of 21 Core Modules and 7 Non-Core Modules. A service provider has been selected to formulate this system and a staff has been appointed to support the service provider. The duties of the officials are to provide the information required to formulate the system to the service provider, to check the accuracy of the system that is formulated based on that information, after the system is released to the officials, if updates are required, to inform the service provider and carry out such updates and if any improvement of the system is needed, to intervene and deal with it and so on. Among the officers of the Inland Revenue Department who are working for staff, the most suitable officers with tax related knowledge were selected after conducting an interview as per Circular No. 01/2019 of the Department of Management Services. Thus, all the payments to the officers for maintaining the RAMIS system have been made according to the Circular No. 01/2019 of the Department of Management Services after obtaining the due permission from the Ministry of Finance Furthermore, these payments are mandatory payments and they have been made for the provision of essential services such as
02		

	As well, the Committee inquired from CAO/AO about not updating RAMIS computer system in accordance with the new income tax amendments made in the year 2016 and reasons for delay in collection of arrears of nearly Rs.201 billion in total chargeable revenue related to RAMIS and Legacy computer systems and issues related to it. The AO stated that under the established self-assessment basis for tax payment, in cases where the Inland Revenue Department does not agree with the reports submitted by the taxpayer, the Inland Revenue Department issues an assessment report after reconsidering it and often after that it referred to the appeal process. AO stated that according to the decision of the court, there is an opportunity to recover part of the arrears of taxes that have been temporarily suspended. Accordingly, AO stated that, in today the tax arrears related to Legacy Computer System, has been reduced by 50% comparative to the year 2019. AO further stated that, businessmen pay those tax arrears or tax related to the Current Year based on their incomes and there is some delay in the tax collection period as the opportunity has been given to pay the arrears in instalments in some cases. **<u>Recommendations/Directives •</u>** The Committee directed the CAO/AO to submit a detailed report within a month on arrears of tax to be collected by each institution in respect of RAMIS and Legacy computer systems separately, methods of recovering the arrears of taxes from the relevant institutions (including payments made in instalments) and to submit a report including the dates on which the total arrears related to those institutions would be fully collected and completed. The Committee directed the CAO/AO to submit a detailed report within one month on the institutions where outstanding taxes, fines and interest have been temporarily suspended in relation to RAMIS and Legacy computer systems. **The report has been submitted which includes the tax arrears that can be charged related to RAMIS and Legacy computer systems and the method of collecting such arrears.**	designing and maintenance of the RAMIS.

03	**Tax appeal process** Streamlining the judicial process related to tax appeals, as tax appeals take longer to resolve when they are referred to the Court of Appeal or the Supreme Court. It was revealed at the Committee that, this matter was also taken into consideration in the previous Public Accounts Committee and since there is no separate court system for the tax related cases, although discussions were held with the Secretary to the Ministry of Justice to establish such a Court system, but it was not implemented. - Recommendations/Directives by emphasizing the need of establish a separate tax court to strengthen the existing system in the judicial system to resolve the tax appeals efficiency, and for that purpose, committee directed the CAO/AO to submit the proposal containing the necessary amendments to the committee within 2 weeks. - The Committee stated that, after having received the proposal containing the amendments, necessary steps would be taken by the Committee on Public Accounts to submit the necessary proposals required to amend the Inland Revenue Act. • A reply report containing the following proposals has been submitted in this regard. (Annexure 02) • Prepare Legal Framework and environment • Appointing judges who are well versed in the subject of taxation • Prepare a specific time framework to hear the cases and announce the verdict and inquire from the Secretary to the Justice/ Attorney General's Department to examine whether it can be practically applied. • Increasing the number of Judicial Board	It is planning to implement the proposals having discussed with the relevant divisions.

04	**Collection of Value Added Tax (VAT).** The sum of Rs.116,350,240,272/= (58%) of the total outstanding collectible arrears consists of value added taxes collected directly and indirectly from the public and it was observed that the department had not implemented necessary actions to remit those taxes on time In the tax value arrears, the value added tax collected by third parties from 05 government agencies on goods and services and thus not remitted to the department is Rs. 193,828,962/= and it was revealed in the Committee that the parties who collect the amount have been allowed to misuse it and the department has not taken efficient and effective measures for it. **Recommendations/Directives** • The Committee directed the CAO/AO to take necessary steps to collect that VAT to the department and to submit a report to the Committee containing the method by which the tax will be collected. Detail report has been submitted in this regard.	Agreed. Herewith attached the progress as at 31.12.2023. (Annexure 01)
05	**Nonfunctioning of Revenue Administration Management Information System (RAMIS)** Although nearly Rs.10 billion has been spent on the Revenue Administration Management Information System (RAMIS) owned by the Inland Revenue Department, but it has not yet been properly implemented. The AO stated that, according to an agreement entered into between Ministry of Finance and Singapore Government, Singapore Corporation Enterprise (SCE) under the Ministry of Foreign Affairs of the Government of Singapore has been awarded the contract to install the RAMIS system and Inland Revenue Department involve in the active part of this. It was revealed in the Committee that software development of this is being done by the MCS, a Singaporean Company that develops the software related to tax administration. The AO stated that, around Rs. 8.8 billion has been spent for the RAMIS project by the end of October 2022 which started the work on the month of July in 2014 and web portal of the RAMIS project was created in 2015 and the work of this project, which was implemented in several phases, was completed by October 2016. It was revealed in the Committee that, technical updates	This conclusion is incorrect The Revenue Administration Management Information System (RAMIS) started in 2014 was made fully functioning by October 2016. Then, in October 2017, Inland Revenue Act No. 24 of 2017 was introduced and it was made effective on 01st April 2018. Since that Act was structurally different from the existing Act No. 10 of 2006, the RAMIS which was in operation until then was not suitable to implement the provisions of the new Act. Accordingly, a complete structural change had to be made in RAMIS and the need to create RAMIS 2.0 was arisen. Cabinet approval for that was received at the end of November 2018. Accordingly, after calling the proposal and quotations for the relevant RAMIS 2.0, It was evaluated and again presented to the Cabinet of Ministers and it was approved in February 2020. Further, the COVID pandemic spread very rapidly by March 2020 and due to this, Sri Lanka, Singapore and many other countries in the world were closed. During this period, calling the staff of government institutions was limited. Therefore, all the activities required to improve RAMIS 2.0 were carried out online. It is a task which was implemented amidst much difficulty than gathering the necessary information by interviewing the employer

	and maintenance services should be done by the Singapore company for the 4 years as per the agreement. AO stated that, as it is required to make the new structural changes and developments in RAMIS system to facilitate the implementation of new Inland Revenue Act No. 24 of 2017 which was passed in the year 2017, and discussions were held with the Moratuwa University which act as a Consultant (third party quality assurance) of this system, it was decided to develop RAMIS 2.0 as the next version of the system.	and client according to the normal method. In this case, the project development took more time than expected due to the breakdown of telephone systems, power outages, and the officials of both sides were infected with Covid-19, and the officials continued related duties day and night. As a result of those sacrifices, the development work was expected to be completed by May 2022.Furthermore, political as well as social instability in the country and unavailability of fuel caused disorderly situation. NCS suspended the RAMIS 2.0 development activities from June 01, 2022, which was crippled in consequence of factors such as non-settlement of bills due from the year 2021 because of the shortage of foreign exchange at that time and the declaration of bankruptcy.
	It was revealed in the Committee that, instructions of the Attorney Generals were also sought after the approval for this project and the contract of the project was signed in July 2020 due to the prevailed covid pandemic. AO stated that, as per the agreement, payments of this system are done through the milestone payment system and despite the invoices being issued, due to the dollar crisis in the country, an amount of 9.1 million Singapore dollars (6.6 million American dollars) is still outstanding. Furthermore, it was revealed in the committee that, problems arose in the credit transactions with the Singapore Company due to the downgraded of Sri Lanka in credit ratings and accordingly, project implementation process was stopped in June 2022 and only the maintenance work of the system is being done by the Singapore Company. By stressing the current functionality of RAMIS system, the AO stated that, after implementation of the new tax act, reports given by the tax payers for the assessment years 2018/2019, 2019/2020, 2020/2021 are being processing in the system, and if there are any problematic tax reports the work related to the process of issuing new assessments related to them are currently stalled.	Afterwards, with the intervention of the COPA committee, the relevant arrears were paid by the Ministry of Finance, and the development activities resumed from 01st of February 2023. Accordingly, the relevant developments have been completed and the system has been updated enabling to issue the assessments for 2018/2019 which is its primary objective. In addition, initial measures have been taken to make changes in the system so that assessments could be issued for 2019/2020, 2020/2021, 2021/2022 and 2022/2023. The requests concerned have been submitted to the system developer. However, Inland Revenue Management has taken necessary measures to issue additional assessments promptly under an alternative method before exceeding of time bar in order to prevent the loss of state revenue in the assessment years 2018/2019, 2019/2020, 2020/2021 and accordingly loss of tax revenue has been prevented.
	As the Revenue Acts may change from time to time and accordingly, upgrades and changes should be made in the system, the Committee inquired that, whether the original agreement did not include conditions that such changes and improvements should be made by the company that accepted the contract. AO stated that, when a new tax system is introduced, changes in the system can be done through "Change Request Process" method, and, a separate version of the system had to be developed due to the structural changes in the new tax act introduced in year 2017.	The conditions related to upgrading of the system complying with the changes time to time made to the Income Tax Act have been included to the original agreement and it could be done subject to the "Change Request Process" Methodology.

06	**Linking of Government Institutions to the RAMIS System** The AO stated that although there are 29 institutions that should be connected with RAMIS system, up to now only 6 essential government agencies are linked to RAMIS system. It was revealed in the Committee that, when connecting other institutions with the RAMIS system, it is required to have an automated system in the other relevant institution that are connected in the same way and there should be an unique digital Identification Number to link data between those systems. But since there is not such a unique ID to link data between government institutions the committee focused on the necessity of introducing such ID number at the national level and the ability to execute all the commercial transactions by using it. Commenting here, the AO stated that, Motor Traffic Department uses chassis number instead of NIC number of the vehicle owner in its data system and there are linking problems among systems due to the absence of that number in the RAMIS system. But the AO stated that, the data of the institutions which use the same TIN number (Taxpayer Identification Number) used by the Inland Revenue Department, is automatically added to the RAMIS system. - **Recommendations/Directives** The Committee directed the CAO/AO to submit appropriate proposals within one month to resolve the existing problems in linking Motor Traffic Department and other institutions associated with RAMIS to the RAMIS system. **The reply report has been submitted. (Annexure 03)** - Furthermore, the Committee directed the CAO/AO to submit the reports, Minutes and Progress of the discussions held with the 29 institutions associated with the RAMIS system by the committee headed by the Additional Secretary of the Ministry of Finance on the recommendation of the previous Public Accounts Committee to the Committee within a month. - - **Reports, Minutes and Progress of the discussions held with the 29 institutions associated with the RAMIS system has been submitted**	The following 6 prominent public institutions that have fulfilled necessary infrastructure have already been linked with RAMIS. 1. People's Bank Bank of Ceylon } Has been linked tax payments only. 2. Department of the Registrar of Companies 3. Ministry of Finance 4. Sri Lanka Customs 5. Lanka Clear Pvt. Ltd. The other institutes have not fulfilled necessary infrastructure to link with RAMIS and the relevant institutes have been made aware in this regard. However, the following institutes are at the final stage of linking with the RAMIS. 1. Department of Motor Traffic 2. Department of Immigration and Emigration 3. Excise Department

07	**Making the RAMIS computer system fully operational quickly.** **Recommendations/Directives** RAMIS In order to make RAMIS Computer System fully functional at the earliest, the Committee directed the CAO/AO to submit a report including following information related to RAMIS System within a month.	
	• If there are shortcomings to make RAMIS fully operational information related to it.	**Total duration required to make the RAMIS fully functional:** According to the agreements made with the service provider, all the primary changes that had to be made in RAMIS to match with the changes under the new tax Act No. 24 of 2017 have been completed. Accordingly, assessments could be issued for the Assessment Year 2018/2019 through the RAMIS system. At present, the necessary background has been made to issue assessments from the Assessment Year 2019/2020 to 2021/2022 under the alternative method while necessary arrangements are being made to issue assessments for the Assessment Year 2022/2023.
	• Whether the ownership of RAMIS system transferred to the Inland Revenue Department after the final payment has been made	**Information on shortcomings, if any, to make the RAMIS functional** Shortcomings prevailed to make the RAMIS functional have been overcome with the intervention of the Ministry of Finance. • The shortcomings related to the existing improvements have been informed to the Ministry of Finance through a committee report
	• The procedure to transfer the ownership of RAMIS to the Inland Revenue Department and time taken to obtain its ownership RAMIS.	**The procedure of obtaining ownership of RAMIS to the Inland Revenue Department and time plan:** The Inland Revenue Department has already possessed the ownership of the RAMIS. But the Inland Revenue Department does not have the trained staff (especially IT officers) required for maintenance work and the support of the system designer has to be obtained for that.
	• Proposals to for changes to be made within RAMIS Computer System	**Proposals for changes to be made within RAMIS** Taking into consideration the fact of increasing of government revenue by expanding the tax base and improving the compliance of returns it could be pointed out that changes required to link RAMIS with it should be made after introducing E- invoicing and Unique Digital ID method in Sri Lanka.
	A reply report related to this has been submitted. (Annexure 04)	• A report consists of shortcomings of the RAMIS and proposals to overcome them has already been submitted to the Secretary, Ministry of Finance.

08	**Non-disclosure of agreement information to the Auditor General** Non-disclosure of information requested by the Auditor General, regarding the agreement entered into between Inland Revenue Department and Singapore Company to update the RAMIS and to provide maintenance services for up to 03 years. The Auditor General stated that, although a Performance Audit started regarding the purchasing and maintaining the system, the information required for this is not presented for the audit in quantitative terms The AO stated that, according to the terms in the agreement entered into with the Singapore Company, in order to share the relevant documents or information with another third party, it is required to get the written consent of the other party concern. Accordingly, when the Auditor General requested the information of this agreement from the Department of Inland Revenue, it was revealed in the Committee that the Commissioner General of Inland Revenue had made an inquiry in this regard to the relevant Singaporean company and that they had not agreed to provide certain information. The Committee observed that, Auditor General and as well as Inland Revenue Department has requested instructions from Attorney General in this regard. The special attention of the committee was drawn to this, and it was decided that the opinion of the Attorney General should be sought regarding its legal validity. Furthermore, the Committee pointed out that, if it would not be satisfied with the replies submitted by the Inland Revenue Department for the directives given at this meeting, the Auditor General should carried out a transaction audit regarding the RAMIS system.	According to the terms of the agreement made with the Singapore company with the approval of the Attorney General, since the written permission of the Singapore company to exchange documents or information related to the RAMIS with another third party has not been received, it is impossible to send copies of the relevant agreements to the Auditor General. Providing such documents is a violation of the terms of the agreement and the officials of the Attorney General's Department have also pointed out that the Singapore company has the opportunity to take further legal action against the Commissioner General of Inland Revenue in this regard. • In response of the query made by the letter No. CGIR/2022/28 dated 08.08.2022 of the Commissioner General of Inland Revenue, Deputy Solicitor General of the Attorney General's Department (Chaya Sri Nammuni) has state the following in her letter dated 30.01.2023. "Given that the Singapore company has refused to give consent to disclosure as stated above, the possibility that such company may institute legal action does exist. The dispute resolution clause provides for arbitration in Hong Kong."
09	**Inefficient collection of taxes paid by dishonoured cheques** Inefficient collection of taxes paid by dishonoured cheques and non-implementation of an appropriate scheme for payment of taxes in lieu of cheques. i. It was observed that, there are 4831 outstanding dishonoured cheques worth Rs. 2,488,003,615/= in relation to Legacy and RAMIS systems as at 30th June 2022.	i. The number of dishonoured cheques to be settled as at 31.12.2023 is 3174 and its value is Rs. 1,948,707,727.85.

	ii. 3817 cheques out of those dishonoured cheques which are worth Rs. 1,429,356,750/= were more than 3-year-old. iii. 3471 cheques worth Rs.1, 980,596,605/= were dishonoured in respect of taxes paid by the cheques collected as value added tax by the taxpayers which was 80% of the total cheques value. The Committee emphasized that it is a problematic situation not to take legal action against the institutions that provide dishonoured cheques and pointed out that it is more effective to make payments through bank guarantees instead of cheques. On the request of the committee, the AO presented a record of carbonized cheques from the year 2008 to 22.11.2022 to the Committee. **Recommendations/Directives** • The Committee directed the CAO/AO to prepare a scheme to take necessary legal measures to recover unpaid dishonoured cheques and submit it to the Committee within one month. The Committee stressed that the Inland Revenue Department will be called before the Committee again in a month. To that meeting, the Committee decided to summon the members of Tax Appeal Commission, Officials of Moratuwa University who involved with this system and officials who involve in operating RAMIS system of Inland Revenue Department.	ii. From those dishonoured cheques, only 2,516 cheques worth Rs. 951,419,883.55 are of more than 3 years. iii. 2,223 cheques amounting Rs. 1,498,999,221.10 which the taxpayers collected as Value Added Tax as at 31.12.2023 and paid by cheques have been dishonoured. The following action has been taken in respect of recovering dishonoured cheques. • The Commissioner General of Inland Revenue inquired from the Governor of the Central Bank on the possibility of revising the fee charged when making payments by Bank Draft instead of cheques through the letter dated 27.09.2023 and a reply was received on 17.01.2024. As per the answer, the Central Bank of Sri Lanka does not directly intervene in the charging of that fee and when the Bankers' Association of Sri Lanka inquired about it from the banks, it has been informed that due to the increase of costs, the fees currently charged by the banks for bank drafts are reasonable. • Generally, tax is paid through cash, bank drafts, cheques and online. Through the letter dated 03.10.2023 of Commissioner General of Inland Revenue requested Secretary Ministry of Economic Stabilization and National Policies to stop paying tax by cheques due to the trend of being cheques dishonoured and to pay by bank drafts. The said letter was copied to the Director General of the Department of Treasury Operations and the Department of Fiscal Policy. • As per the instructions received from the reply to the inquiry which was sent to the Attorney General on 25.05.2023, the legal division has taken action. • Through the letter dated 27.09.2023 of Commissioner General of Inland Revenue which addressed the Commissioners of all the Units which administrate dishonoured cheques it has been informed to send a specially prepared letter by registered post to the taxpayer requesting him to inquire about the payment of all dishonoured cheques and if payment has already been made, follow up it along with the relevant documents.

		• The Commissioners in charge of the units have been informed to follow the following steps and to prepare and submit relevant inspection reports in case the letters sent regarding the recovery of the dishonoured cheques have not been responded or returned. If the letter has been returned: i. To check whether another address or a telephone number within the system; ii. Try to connect the tax payer over the phone iii. If other address could be found, re-post it to the second address If both first and second letters have been returned i. To enquire from Grama Niladhari ii. To enquire from the post office iii. To conduct an on-site inspection The number of dishonoured cheques have been reduced up to 3174 by 31.12.2023 following the said methods. • Commissioner General of Inland Revenue has informed the officers of the department on the way of making aware the taxpayers about payment of tax by cheques. • Taxpayers with more than three cheques being dishonoured have been blacklisted and have already been published on the intranet of the department from October 2019. Further, the possibility of publishing on the departmental website is also being studied. • Bank of Ceylon transfers the payment to the system of the department only after clearance of cheques from August 2023. Accordingly, since the systems of the department have to be developed in order to receive dishonoured payments to the system, to create work items, send related documents to the taxpayers and generate reports NCS Institute which the functions of the RAMIS is undertaken has been informed in this regard. • Notices have been published to inform taxpayers that it is not considered that payments are made to the system on the same day which cheques are handed over to the bank as earlier done and relevant penalties may be imposed on late payments since Bank of Ceylon and the People's Bank make payments to the system only after cheques are cleared.

Annexture 01

Progress as at 31.12.2023

The progress of remittance of VAT by the relevant taxpayers as at 31.12.2023 as per the answers received for the Audit Queries raised on remittance of VAT paid by the 05 relevant Public Institutions to the Inland Revenue Deparment could be tabulated as follows.

	Query No	VAT Value(රු.)	Added amount of VAT (රු.)	Amount of assessments issued for VAT (Rs)	Amount whoch auditing hs been initiated (Rs.))	Excluded tax	Amoun of bill with erronous bills	Amount which work items have been started
South Eastern University of Sri Lanka	PUR/D/IRD/2021/AQ/26	2,031,445.64	1,119,673.76	56,859.69	743,605.00	43,803.89		
Central Engieeninering Consultancy Bureau	PUR/D/IRD/2021/AQ/30	10,939,806.00	44,135,475.53	87,455,980.00	1,204,610.09	-		
Land Reclamation & Development Service Company (Pvt) Limited	PUR/D/IRD/2021/AQ/31	7,546,338.00	4,219,880.00	45,116.10	49,306.42	-	178,530.65	
Land Reclamation & Development Authority	PUR/D/IRD/2021/AQ/33	130,352,827.00	73,191,001.00	54,181,723.59	19,148,175.00			
Road Developmet Authority	PUR/D/IRD/2021/AQ/34	41,221,000.74	3,135,325.63	3,682,094.17	3,609,791.68			13,616,379.15
TOTAL		**192,091,417.38**	**125,801,355.92**	**145,364,913.86**	**24,755,488.19**		**178,530.65**	**13,616,379.15**

Parliamentary Series No. : - 77

Institute : - **Inland Revenue Department**

Date of Examination : - **24th January 2024**

	The shortcomings in the report which were identified by the Committee	**Steps taken by the institute to rectify the shortcomings/ present status**
01.	<u>Not given the service agreement to Auditor General</u> Auditor General requested the Service Agreement entered into between the Inland Revenue. Officer representing the Attorney General's Department stated that in terms of Article 154 (5) (c) of the Constitution, Auditor General is empowered to call for all necessary documents relevant to the audit query and similar power is also vested with the Auditor General in terms of the Section 6 (3) of the National Audit Act. Accordingly, it was revealed that the Auditor General clearly has legal power to call the documents in terms of the Constitution of the Democratic Socialist Republic of Sri Lanka and statutory provisions and furthermore the failure to comply with the request of the Auditor General is identified as an offence in terms of the National Audit Act He further pointed out that, as per the service agreement signed between the IRD and the Singapore Company, there may be implications that the Singapore Company may proceed with the Commissioner General of IRD for breach of contract, if he violates its conditions.	In accordance with the conditions specified in the agreement with the Singapore Company signed with the approval of the Attorney General, since written approval of the Singapore Company has not been received for correspondence with a third party it is impossible to send copies of the relevant agreements to the Auditor General. Providing such documents is a violation of the terms of the agreement and in response of the query of the Commissioner General of Inland Revenue, Attorney General has informed in writing that the Singapore company has the opportunity to take further legal action against the Commissioner General of Inland Revenue in this regard. • In response of the query made by the letter No. CGIR/2022/28 dated 08.08.2022 of the Commissioner General of Inland Revenue, Deputy Solicitor General of the Attorney General's Department (Chaya Sri Nammuni) has state the following in her letter dated 30.01.2023. "Given that the Singapore company has refused to give consent to disclosure as stated above, the possibility that such company may institute legal action does exist. The dispute resolution clause provides for arbitration in Hong Kong."

02.	<u>**The Committee focused on whether the terms of the service agreement had been cleared by the Attorney General before signing the agreement.**</u> Whether the terms of the service agreement had been cleared by the Attorney General before signing the agreement. It was disclosed that clearance of the Attorney General was obtained for the initial agreement signed in 2014 which was valued at S$ 35 million (S$- Singapore Dollars). In addition to that the service agreement signed in 2017 for the development of the next version of RAMIS 2.0 was valued at S$ 15.5 million and it was further revealed that due to the confidentiality clause in that service agreement, a copy of the service agreement was not submitted to the Attorney General and only certain parts of the agreement were exchanged. Then the Committee inquired from the Accounting Officer (AO) of IRD about the necessity of inserting such a clause in the agreement for not to share the information and further inquired whether any discussions were held with the vendor to clear this confidentiality clause. The AO stated that the Commissioner General of the IRD discussed with the Chief Executive Officer and Executive Director of the Singapore Company in this regard and they did not agree to give the agreement to the Auditor General. AO further stated that since the clauses of the agreement related to payments have already been violated by the IRD and if another clause is violated, a problem may arise.	Before signing agreements regarding RAMIS, approval of the Attorney General has been obtained.

03.	**<u>Current status of the RAMIS Project</u>** The AO of the IRD stated that, the ownership of the RAMIS is with the IRD after the final payment and the development process of the next version of the RAMIS called RAMIS 2.0 is underway on and maintenance of the system is also carried out by the Singapore Company. It was disclosed that S$ 6 million out of the S$ 15.5 million have already been paid for the RAMIS 2.0 and the balance of S$ 9.5 million is still owed to them. The Officer representing the University of Moratuwa stated that since 2015, the University of Moratuwa had been providing consultancy services to the IRD to buildup RAMIS, as there was a clause in the initial agreement that there should be a third-party reviewer for the system. Pointing out the human capital issue and the server /infrastructure issue he further stated that, two aspects need to be addressed in order to get the full utilization of the RAMIS to the IRD. Firstly, whether the IRD has an in-house development team and secondly whether there is a capable local service provider who acquires the domain expertise as it is challenging to find local service providers in the taxation domain.	RAMIS has been designed and implemented to administrate all the taxes which are administrated by Inland Revenue Department except Social Security Contribution Tax (SSCL) and Betting and Gaming Levy (B & GL). At present, the developments on establishing SSCL within RAMIS is in progress. All the payments have been made for the invoices which have been issued up to 31st of December 2023. The report consists of shortcomings of RAMIS and the proposals to overcome them has been submitted to the Secretary, Ministry of Finance and it is expected that necessary action in this regard will be taken with the intervention of Ministry of Finance.
04.	**<u>Trained officers for RAMIS project</u>** The Committee observed that about 90 staff members in the IRD have already been trained in relation to the RAMIS project and that there is a problem in getting ICT experts as the salary scales in the public sector are comparatively very low. It was	Even though the officials' expertise in the subject of tax could be found from the department, there are issues in obtaining service of the ICT experts.

	disclosed that there is a possibility of outsourcing that service as there are competent software companies in Sri Lanka that build software systems in locally and internationally.	It is expected that necessary action will be taken as per the committee report submitted to the Ministry of Finance.
05.	**New Global initiatives for Tax administration** The officer representing the IT industry pointed out that some countries are already moving towards new technology initiatives in tax administration. For example, in the United Kingdom, there is an initiative called Making Tax Digital (MTD), where Government spends minimal money only to make the core API in the System. Additionally, it was revealed that if the IRD wants to connect with systems of other government institutions, the API of the IRD would have to be written in other systems when the system is designed. The officer representing the Information and Communication Technology Agency (ICTA) stated that earlier there was an Inter-Ministerial Committee that facilitated the meetings between government institutions, which did not meet in the recent past. Recommendations /Directives Committee decided to form two Technical Committees to properly assess and evaluate the RAMIS and to identify ways to move forward the RAMIS as follows. Technical Committee 01 - to make recommendations to resolve the technical and related issues and to enhance the RAMIS This Report has been submitted. The Committee directed the formation of the above Technical Committee-01 coordinated by the Chairman of the Information and Communication Technology Agency (ICTA) consisting of the relevant officials from the Ministry of Finance, Economic Stabilization & National Policies, Inland Revenue Department (including the Head of the computer/IT section, Project Director of RAMIS), ICTA, University of Moratuwa and	The systems should be developed so that data could be transferred to RAMIS of the Inland Revenue Department through web while data should be processed in compliance with such standards. For example, a Unique Number should be introduced as NIC for an individual and Company Registration Number for a company.

	proficient people from IT industry. Furthermore, the Committee directed the Technical Committee - 01 to submit their proposals and plan, with a timeline, to resolve technical and related issues and improve the efficiency and maximize the usage of RAMIS, accommodating the needs with the amendments of tax Acts, to CoPA within six weeks. • Technical Committee 02 - to find out the possibility of changing theRAMIS within the existing legal framework to enhance the system. The Committee directed the formation of the above Technical Committee - 02, which is headed and coordinated by the Ministry of Finance, Economic Stabilization and National Policies and consisting of relevant officials from the Ministry of Finance, Economic Stabilization & National Policies, Inland Revenue Department and Attorney General's Department. Furthermore, the Committee directed the Technical Committee - 02 to submit a legal opinion and analysis as to the possibility of changing the RAMIS in terms of the agreement entered into between the Inland Revenue Department and Singapore Company to give feedback to the above Technical Committee - 01 to consider the possibility of implementation of their proposals/ plans.	

I kindly submit the above information regarding the measures taken and observations regarding the reports submitted by the Committee on Public Accounts under Standing Order No. 119(4) in relation to the Inland Revenue Department, for Parliamentary Series No. 77.

Sgd:
Commissioner General
Inland Revenue Department